

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Clarence Township	County Calhoun
Fiscal Year End March 31, 2006	Opinion Date September 26, 2006	Date Audit Report Submitted to State October 31, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

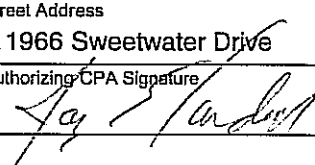
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Cardinal Tepatti & Co., P.C.		Telephone Number 517-627-4008	
Street Address 11966 Sweetwater Drive		City Grand Ledge	State MI
Zip 48837			
Authorizing CPA Signature 	Printed Name Jay E. Cardinal	License Number 1101009698	

**CLARENCE TOWNSHIP**

**CALHOUN COUNTY**

**AUDIT REPORT**

**YEAR ENDED MARCH 31, 2006**

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Jay E. Cardinal, CPA  
Randall L. Tepatti, CPA  
Steven W. Shults, CPA  
Thomas J. Bellgraph, CPA

## INDEPENDENT AUDITOR'S REPORT

Honorable Board Members  
Clarence Township  
Albion, MI 48821

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Clarence Township, Albion, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Clarence Township, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Clarence Township, Albion, Michigan, as of March 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, pages 2 through 4, budgetary comparison information, pages 25 through 27, and combining balance sheet and statement of revenues, expenditures, and changes and fund balance, pages 28 and 29, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of Clarence Township, Albion, Michigan, basic financial statements. The introductory section and schedule of indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and schedule of indebtedness have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Cardinal Tepatti & Co., P.C.*

Grand Ledge, Michigan  
September 26, 2006

Randall L. Tepatti,<sup>1</sup> *Registered Representative*

**CLARENCE TOWNSHIP  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED MARCH 31, 2006**

The management of the Clarence Township, ("the Township") offers this narrative overview and analysis of the financial activities of the Township for the year ended March 31, 2006 for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Township's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

**Financial Highlights**

The Township's assets exceeded its liabilities by \$1,914,262 (net assets) for the current year. This compares to the previous year when assets exceeded liabilities by \$1,906,847.

Total net assets are comprised of the following:

- (1) Capital assets, net of related debt, of \$956,237 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
- (2) Net assets of \$71,726 are restricted for debt service on sewer bonds.
- (3) Unrestricted net assets of \$886,299 represent the portion available to maintain the Township's continuing obligations to citizens and creditors.

The Township's governmental funds reported total ending fund balance of \$207,432 this year. This compared to the prior year ending fund balance of \$154,360 showing an increase of \$53,072 during the year. The total fund balance was unreserved at each year end.

At the end of the current fiscal year, unreserved fund balance for the General Fund was \$81,985, or 32.6% of total General Fund expenditures including transfers and 33.7% of total General Fund revenues including transfers.

State-shared revenue, the general fund's largest revenue source, was reduced by \$3,955 by the State of Michigan.

**Overview of the Financial Statements**

The Township's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements.

The Statement of Net Assets presents information on all of the Township's assets and liabilities, the difference between the two being reported as the Net Assets of the Township. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities gives the information on the revenues and expenses causing the underlying change in the government's net assets during the most recent year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

The government-wide financial statements can be found on pages 5 and 6 of this report.

**Focus on Funds**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Township are categorized as governmental funds.

The Township has three kinds of funds:

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide information to facilitate this comparison between governmental funds and governmental activities.

The Township maintains four individual governmental funds. Information for these funds is presented in the fund balance sheets and fund statements of revenue, expenditures, and changes in fund balances. The general fund is considered to be a major fund and the three capital project funds are considered to be non-major funds.

The Township adopts an annual appropriated budget for its general fund. Budgetary comparison statements have been provided for the general fund in the required supplementary information.

Proprietary funds are reported in the fund financial statements and generally report services for which the Township charges customers a fee. The Township only has one kind of proprietary fund, this is an enterprise fund. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the Township organization such as sewer utilities.

Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for the sewer fund.

Fiduciary funds such as the cemetery trust fund are reported in the fiduciary fund financial statements, but are excluded from government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund Township programs. Fiduciary fund financial statements report similarly to proprietary funds.

The basic governmental, proprietary, and fiduciary fund financial statements can be found on pages 7 through 15 of this report.

### **Notes to the financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-side and fund financial statements. The notes to the financial statements can be found on pages 16 through 24 of this report.

### **Other information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's general fund budget on pages 25 through 27 and combining statements for non-major funds on pages 28 and 29.

**Condensed Financial Information**

The table below compares key financial information in condensed format:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 212,929	\$ 158,793	\$ 63,618	\$ 93,632	\$ 276,547	\$ 252,425
Investments			124,329	122,844	124,329	122,844
Receivables - Net	11,652	12,603	519,114	519,065	530,766	531,668
Prepaid Insurance	3,629	3,637	3,629	3,637	7,258	7,274
Assets Restricted by Bond Indentures			71,726	63,648	71,726	63,648
Capital Assets - Net	83,390	86,784	1,297,847	1,345,546	1,381,237	1,432,330
<b>Total Assets</b>	<b>311,600</b>	<b>261,817</b>	<b>2,080,263</b>	<b>2,148,372</b>	<b>2,391,863</b>	<b>2,410,189</b>
<b>LIABILITIES</b>						
Accounts Payable	3,825	3,036	41,701	33,048	45,526	36,084
Accrued and Other Liabilities	1,763	1,508	5,312	5,750	7,075	7,258
Noncurrent Liabilities						
Due Within One Year			35,000	35,000	35,000	35,000
Due in More Than One Year			390,000	425,000	390,000	425,000
<b>Total Liabilities</b>	<b>5,588</b>	<b>4,544</b>	<b>472,013</b>	<b>498,798</b>	<b>477,601</b>	<b>503,342</b>
<b>NET ASSETS</b>						
Invested in Capital Assets	83,390	86,744	872,847	885,546	956,237	972,290
Restricted for Debt Service			71,726	63,648	71,726	63,648
Unrestricted	222,622	170,529	663,677	700,380	886,299	870,909
<b>Total Net Assets</b>	<b>\$ 306,012</b>	<b>\$ 257,273</b>	<b>\$ 1,608,250</b>	<b>\$ 1,649,574</b>	<b>\$ 1,914,262</b>	<b>\$ 1,906,847</b>
<b>REVENUE</b>						
Property Taxes	\$ 137,811	\$ 134,114	\$	\$	\$ 137,811	\$ 134,114
State Shared Revenue	131,200	135,155			131,200	135,155
Investment Earnings	1,617	470	27,418	17,098	29,035	17,568
Miscellaneous	15,640	15,404			15,640	15,404
Charges for Services	27,690	32,995	116,223	121,716	143,913	154,711
<b>Total Revenue</b>	<b>313,958</b>	<b>318,138</b>	<b>143,641</b>	<b>138,814</b>	<b>457,599</b>	<b>456,952</b>
<b>EXPENSES</b>						
Township Services	265,219	248,174			265,219	248,174
Sewer Service			184,965	194,420	184,965	194,420
<b>Total Expenditures</b>	<b>265,219</b>	<b>248,174</b>	<b>184,965</b>	<b>194,420</b>	<b>450,184</b>	<b>442,594</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 48,739</b>	<b>\$ 69,964</b>	<b>\$ (41,324)</b>	<b>\$ (55,606)</b>	<b>\$ 7,415</b>	<b>\$ 14,358</b>

**Contacting the Township**

This financial report is designed to provide the wide variety of users of this document with a general overview of the Township's finances and demonstrate the Township's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the Clarence Township, 27052 R Drive North, Albion, Michigan 49224.

**CLARENCE TOWNSHIP  
STATEMENT OF NET ASSETS  
MARCH 31, 2006**

	Governmental Activities	Primary Government Business-type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 212,929	\$ 63,618	\$ 276,547
Investments		124,329	124,329
Receivables - Net	11,652	519,114	530,766
Prepaid Insurance	3,629	3,629	7,258
Assets Restricted by Bond Indentures		71,726	71,726
Capital Assets - Net	83,390	1,297,847	1,381,237
	<u>311,600</u>	<u>2,080,263</u>	<u>2,391,863</u>
<b>LIABILITIES</b>			
Accounts Payable	3,825	41,701	45,526
Accrued and Other Liabilities	1,763	5,312	7,075
Noncurrent Liabilities			
Due Within One Year		35,000	35,000
Due in More Than One Year		390,000	390,000
	<u>5,588</u>	<u>472,013</u>	<u>477,601</u>
<b>NET ASSETS</b>			
Invested in Capital Assets	83,390	872,847	956,237
Restricted for Debt Service		71,726	71,726
Unrestricted	222,622	663,677	886,299
	<u>306,012</u>	<u>1,608,250</u>	<u>1,914,262</u>
<b>Total Net Assets</b>	<u>\$ 306,012</u>	<u>\$ 1,608,250</u>	<u>\$ 1,914,262</u>

The notes to the financial statements are an integral part of this statement.



**CLARENCE TOWNSHIP  
STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2006**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 169,717	\$ 9,325	\$	\$	\$ (160,392)	\$	\$ (160,392)
Public Safety	92,062	18,365			(73,697)		(73,697)
Public Works	3,440		10,378		6,938		6,938
Total Governmental Activities	265,219	27,690	10,378	-0-	(227,151)	-0-	(227,151)
Business-type Activities - Sewer	184,965	116,223	-0-	-0-		(68,742)	(68,742)
Total Primary Government	\$ 450,184	\$ 143,913	\$ 10,378	\$ -0-	(227,151)	(68,742)	(295,893)
General Revenues:							
Property Taxes					137,811		137,811
State-Shared Revenues					131,200		131,200
Unrestricted Investment Earnings					1,617	27,418	29,035
Franchise Fees					1,278		1,278
Miscellaneous					2,298		2,298
Transfers					1,686		1,686
Total General Revenues and Transfers					275,890	27,418	303,308
Change in Net Assets					48,739	(41,324)	7,415
Net Assets - April 1					257,273	1,649,574	1,906,847
Net Assets - March 31					\$ 306,012	\$ 1,608,250	\$ 1,914,262

The notes to the financial statements are an integral part of this statement.

**CLARENCE TOWNSHIP  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
MARCH 31, 2006**

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 91,312	\$ 132,078	\$ 223,390
Receivables:			
Taxes	6,467	5,093	11,560
Accounts	<u>92</u>	<u></u>	<u>92</u>
Total Assets	\$ <u><u>97,871</u></u>	\$ <u><u>137,171</u></u>	\$ <u><u>235,042</u></u>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 3,825	\$	\$ 3,825
Accrued and Other Liabilities	1,763		1,763
Due to Other Funds	3,831	6,631	10,462
Deferred Revenues	<u>6,467</u>	<u>5,093</u>	<u>11,560</u>
Total Liabilities	<u>15,886</u>	<u>11,724</u>	<u>27,610</u>
<b>FUND EQUITY</b>			
Fund Balance - Unreserved	<u>81,985</u>	<u>125,447</u>	<u>207,432</u>
Total Fund Equity	<u>81,985</u>	<u>125,447</u>	<u>207,432</u>
Total Liabilities and Fund Equity	\$ <u><u>97,871</u></u>	\$ <u><u>137,171</u></u>	\$ <u><u>235,042</u></u>

The notes to the financial statements are an integral part of this statement

CLARENCE TOWNSHIP  
GOVERNMENTAL FUNDS  
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL  
FUNDS TO STATEMENT OF NET ASSETS  
MARCH 31, 2006

Total fund balance -Total governmental funds	\$ 207,432
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the governmental fund financial statements.	245,908
Accumulated depreciation has not been included in the governmental fund financial statements.	(162,517)
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.	11,560
Prepaid items are not available to pay current-period expenditures and, therefore, not reported in the funds.	<u>3,629</u>
Net assets of governmental activities	\$ <u><u>306,012</u></u>

The notes to financial statements are an integral part of this statement.

**CLARENCE TOWNSHIP  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED MARCH 31, 2006**

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes	\$ 77,860	\$ 60,883	\$ 138,743
State Grants	131,200	10,378	141,578
Licenses & Permits	19,643		19,643
Charges for Services	4,850		4,850
Interest & Rentals	5,524	568	6,092
Other Revenue	<u>2,298</u>		<u>2,298</u>
Total Revenues	<u>241,375</u>	<u>71,829</u>	<u>313,204</u>
<b>EXPENDITURES</b>			
Current:			
General Government	166,825		166,825
Public Safety	84,913	6,640	91,553
Public Works		3,440	3,440
Capital Outlay			<u>-0-</u>
Total Expenditures	<u>251,738</u>	<u>10,080</u>	<u>261,818</u>
Excess of Revenues Over (Under) Expenditures	<u>(10,363)</u>	<u>61,749</u>	<u>51,386</u>
Other Financing Sources (Uses)			
Operating Transfers In	<u>1,686</u>		<u>1,686</u>
Total Other Financing Sources (Uses)	<u>1,686</u>	<u>-0-</u>	<u>1,686</u>
Net Change in Fund Balances	(8,677)	61,749	53,072
Fund Balance - April 1	<u>90,662</u>	<u>63,698</u>	<u>154,360</u>
Fund Balance - March 31	<u>\$ 81,985</u>	<u>\$ 125,447</u>	<u>\$ 207,432</u>

The notes to the financial statements are an integral part of this statement

**CLARENCE TOWNSHIP  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCE TO STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2006**

Net Change in Fund Balance - Total Governmental Funds	\$ 53,072
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	(3,394)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Property taxes	(931)
Prepaid items reduce expenses reported in the statement of activities, but are reported as expenditures in the governmental funds because they require the use of current financial resources.	<u>(8)</u>
Change in Net Assets of Governmental Activities	\$ <u><u>48,739</u></u>

The notes to financial statements are an integral part of this statement.

**CLARENCE TOWNSHIP  
PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
MARCH 31, 2006**

	<u>Enterprise- Sewer Fund</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and Cash Equivalents	\$ 53,156
Investments - At Cost	124,329
Receivables:	
Special Assessment Receivable - Current	28,726
Due From Other Funds	10,462
Due From Other Governments	17,610
Prepaid Expenses	<u>3,629</u>
Total Current Assets	237,912
<b>NONCURRENT ASSETS:</b>	
Restricted Assets:	
Cash and Cash Equivalents	71,726
Due From County	317,429
Special Assessment Receivable	155,349
Capital Assets - Net	<u>1,297,847</u>
Total Noncurrent Assets	<u>1,842,351</u>
Total Assets	2,080,263
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts Payable	41,701
Accrued Interest Payable	5,312
Current Portion - Long Term Debt	<u>35,000</u>
Total Current Liabilities	82,013
<b>NONCURRENT LIABILITIES:</b>	
Long-term Debt - Net of Current Portion	<u>390,000</u>
Total Noncurrent Liabilities	472,013
<b>NET ASSETS</b>	
Investment in Capital Assets - Net of Related Debt	872,847
Restricted for Debt Service	71,726
Unrestricted	<u>663,677</u>
Total Net Assets	\$ <u><u>1,608,250</u></u>

The notes to the financial statements are an integral part of this statement

**CLARENCE TOWNSHIP  
PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEAR ENDED MARCH 31, 2006**

	<u>Enterprise Sewer Fund</u>
OPERATING REVENUES:	
Charges for Services	\$ 112,676
Other Revenue	<u>3,547</u>
Total Operating Revenues	<u>116,223</u>
OPERATING EXPENSES:	
Cost of Sewage Treatment	95,587
Billing and Administrative Costs	13,616
Depreciation	<u>53,199</u>
Total Operating Expenses	<u>162,402</u>
OPERATING LOSS	<u>(46,179)</u>
NONOPERATING REVENUE (EXPENSES)	
Interest Received on Special Assessments	12,641
Interest Revenue	14,777
Interest Expense & Fiscal Charges	<u>(22,563)</u>
Total Nonoperating Revenues (Expenses)	<u>4,855</u>
CHANGE IN NET ASSETS	(41,324)
NET ASSETS - APRIL 1	<u>1,649,574</u>
NET ASSETS - MARCH 31	<u>\$ 1,608,250</u>

The notes to financial statements are an integral of this statement

**CLARENCE TOWNSHIP  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED MARCH 31, 2006**

	Enterprise Sewer Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash Received From Customers	\$ 96,679
Cash Payments for Goods & Services	(100,489)
Cash Payments to Employees	(9,019)
	<u>(12,829)</u>
Net Cash Provided by Operating Activities	<u>(12,829)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Collection of Special Assessments	30,112
Principal Paid on Revenue Bonds	(35,000)
Interest Paid on Revenue Bonds	(22,563)
Increase in Due From County	(12,551)
	<u>(40,002)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(40,002)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Received on Special Assessments	12,641
Interest on Investments	14,777
Purchase of Equipment	(5,500)
Purchase of Investments	(1,485)
	<u>20,433</u>
Net Cash Used in Investing Activities	<u>20,433</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	(32,398)
<b>CASH AND CASH EQUIVALENTS - APRIL 1</b>	<u>157,280</u>
<b>CASH AND CASH EQUIVALENTS - MARCH 31</b>	<u><u>\$ 124,882</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>	
Operating Income (Loss)	\$ (46,179)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities	
Depreciation	53,199
(Increase) Decrease in Prepaid Expenses	8
(Increase) Decrease in Due From Other Funds	(10,462)
(Increase) Decrease in Due From Other Governments	(17,610)
Increase (Decrease) in Accounts Payable	8,215
	<u>33,350</u>
Total Adjustments	<u>33,350</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ (12,829)</u></u>

The notes to financial statements are an integral of this statement



CLARENCE TOWNSHIP  
FIDUCIARY FUNDS  
STATEMENT OF NET ASSETS  
MARCH 31, 2006

	Cemetery Trust
ASSETS	
Cash and cash equivalents	\$ 6,728
Investments	<u>50,000</u>
Total Assets	56,728
LIABILITIES AND NET ASSETS	
LIABILITIES	
Due to Other Funds	-0-
NET ASSETS	
Reserved	<u>56,728</u>
Total Net Assets	\$ <u><u>56,728</u></u>

The notes to financial statements are an integral of this statement

**CLARENCE TOWNSHIP  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN NET ASSETS  
MARCH 31, 2006**

<b>ADDITIONS</b>	
Cemetery Lot Sales	\$ 475
Investment Income - Interest	<u>1,686</u>
Total Additions	2,161
<b>DEDUCTIONS</b>	
Transfers	<u>1,686</u>
Change in Net Assets	475
Net Assets - April 1	<u>56,253</u>
Net Assets - March 31	\$ <u><u>56,728</u></u>

The notes to financial statements are an integral of this statement

**CLARENCE TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Clarence Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by Clarence Township:

The Reporting Entity

Clarence Township governed by an elected five-member Board of Trustees. The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. In accordance with generally accepted accounting principles, there are no components units to be included in these financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Township. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, generally financed in whole or in part with fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Financial Statements

The Township segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental activities. These statements present each major fund as a separate column on the fund financial statements.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current resources. The Township has presented the following governmental funds:

General Fund – The general fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund is the Township's only major governmental fund.

**CLARENCE TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONT'D**

Capital Improvement Funds – These funds are used to account for financial resources to be used for the construction or improvement of major capital facilities (other than those financed by proprietary funds, special assessment funds, and trust funds).

The Township reports the following major proprietary funds:

Sewer Funds – The Sewer Funds account for the activities of the sewage distribution system. This fund financed primarily by a user charge for the provision of those services.

Additionally, the Township reports the following fund types:

Fiduciary Funds – Fiduciary funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, organizations, other governments, or other finds. These include the Cemetery Trust and Tax Collection Funds. These funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Non-major Governmental Fund – The non-major governmental fund consists of the Capital Improvement Funds. These funds are used to account for the development of capital facilities other than those financed by the operations of an Enterprise Fund.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with standards of the Governmental Accounting Standards Board.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

**CLARENCE TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONT'D**

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for services. The Sewer Operations Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity date within three months or less when acquired.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Interest incurred during construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

**CLARENCE TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONT'D**

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 50 years
Furniture and Fixtures	5 to 20 years
Machinery & Equipment	4 to 10 years
Sewer System	50 years
Vehicles	10 years

**Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or business-type activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Property Taxes**

The Township property tax is levied on each December 1, on the State taxable valuation of property located in the Township as of the preceding December 31<sup>st</sup>.

Although the Township 2005 ad valorem tax is levied and collectible on December 31, 2005 it is the Township's policy to recognize revenue from this year's tax levy.

The 2005 State Equalized Valuation of the Township totaled \$97,230,260 and the State Taxable Valuation was \$63,451,602, on which ad valorem taxes levied consisted of .8160 mills and raising \$51,781 for Township operations.

**CLARENCE TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budget Policies

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State Law for the general fund and special revenue funds. All annual appropriations lapse at fiscal year end. Encumbrances are not employed.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the activity level. Expenditures in excess of amounts budgeted are a violation of Michigan Law. State law permits entities to amend their budgets during the year. There were no significant amendments during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds

<u>Fund</u>	<u>Appropriated</u>	<u>Expended</u>	<u>Variance</u>
General Fund:			
General Government:			
Legislative	\$ 4,040	\$ 4,144	\$ (104)
Supervisor	9,610	9,626	(16)
Cemetery	26,080	26,420	(340)
Public Safety:			
State Construction Code	21,460	22,058	(598)

**NOTE 3 - CASH**

Michigan Compiled Laws, section 129.91, authorizes the Township to make deposits and invest in the accounts of the federally insured banks, credit unions, and savings and loan associations which have offices in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township Board has designated two banks for deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments in bank accounts and CDs, but not the remainder of State statutory Township as listed above.

The Township's deposits and investment policy are in accordance with statutory authority.

**CLARENCE TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 – CASH – CONT'D**

At year-end, the Local Unit's deposits and investments were reported in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$212,929	\$ 63,618	\$ 6,728	\$ 283,275
Investments	<u>          </u>	<u>124,329</u>	<u>50,000</u>	<u>174,329</u>
Total	<u>\$212,929</u>	<u>\$187,947</u>	<u>\$56,728</u>	<u>\$ 457,604</u>

The Breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts)	\$283,275
Investments in certificates of deposit	<u>174,329</u>
Total	<u>\$457,604</u>

The bank balance of the primary government's deposits is \$544,074, of which \$199,000 is covered by federal depository insurance.

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the Local Governmental Unit or its agent in the government's name;
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name; and
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Local Governmental Unit's name.

At year-end, the government's investment balances were categorized as follows:

	<u>Category</u>	<u>Reported Amount (Fair Value)</u>
	<u>1</u> <u>2</u> <u>3</u>	
Certificates of Deposit	<u>\$174,329</u> <u>\$-0-</u> <u>\$-0-</u>	<u>\$174,329</u>



**CLARENCE TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 – RECEIVABLES**

Receivables as of year-end for the government's individual major and non-major funds, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Sewer Fund	Non-Major and Other Funds	Total
	\$	\$	\$	\$
Taxes Receivable	6,467		5,093	11,560
Accounts	92			92
Special Assessments		184,075		184,075
Due From Other Governments		335,039		335,039
Net Receivables	<u>\$ 6,559</u>	<u>\$ 519,114</u>	<u>\$ 5,093</u>	<u>\$ 530,766</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Taxes	<u>\$11,560</u>

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of inter-fund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due To/From Other Funds</b>		
Sewer Fund	General Fund	\$ 3,831
	Fire Equipment Fund	6,631
Total		<u>\$ 10,462</u>

These balances result from the time lag between the dates that goods and services are provided and reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Inter-fund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
Cemetery Trust	General Fund	<u>\$1,686</u>

**CLARENCE TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity of the primary unit for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 2,000	\$	\$	\$ 2,000
Capital Assets Being Depreciated				
Buildings	159,000			159,000
Furniture and Fixtures	84,908			84,908
Subtotal	243,908	-0-	-0-	243,908
Less Accumulated Depreciation	159,124	3,394		162,518
Net Capital Assets Being Depreciated	84,784	(3,394)	-0-	81,390
Governmental Activities Total Capital Assets - Net of Depreciation	\$ 86,784	\$ (3,394)	\$ -0-	\$ 83,390
<b>Business-Type Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 118,712	\$	\$	\$ 118,712
Capital Assets Being Depreciated				
Buildings	12,106			12,106
Sewer System	2,447,887			2,447,887
Equipment	93,392	5,500		98,892
Subtotal	2,553,385	5,500	-0-	2,558,885
Less Accumulated Depreciation	1,326,551	53,199		1,379,750
Net Capital Assets Being Depreciated	1,226,834	(47,699)	-0-	1,179,135
Business-Type Activities Total Capital Assets - Net of Depreciation	\$ 1,345,546	\$ (47,699)	\$ -0-	\$ 1,297,847

Depreciation expense was charged to programs as follows:

Governmental Activities:	
General Government	\$ 3,394
Business-Type Activities:	
Sewer	\$ 53,199

**CLARENCE TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 – RESTRICTED ASSETS**

Certain proprietary funds report restricted assets for cash deposited in bank accounts legally restricted for specified uses such as the payment of fiscal fees on long-term debt or mortgage loans.

**NOTE 8 - LONG-TERM DEBT**

Included in the business-type activities are special assessment bonds that were issued November 23, 1977. These bonds totaling \$996,000, were used to construct a sewage treatment system. The Township pledged its full faith and credit for payment. These bonds are payable over 40 years with interest at 5.0%.

Total interest incurred for the Township for the year was \$22,563.

Long-term obligation activity can be summarized as follows:

	<u>Interest</u>	<u>Principal</u>	<u>Beginning</u>	<u>Additions</u>	<u>Ending</u>	<u>Due Within</u>
	<u>Rate</u>	<u>Matures</u>	<u>Balance</u>	<u>(Reductions)</u>	<u>Balance</u>	<u>One Year</u>
<b>Business-type Activity</b>						
Special Assessment Bonds						
1977 sewage disposal						
Bonds	5.000%	11-1-17	\$460,000	(\$35,000)	\$425,000	\$35,000

Annual debt service requirements to maturity for the above obligations are as follows:

	<u>Business-type Activities</u>	
<u>Year End March 31</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 35,000	\$ 21,250
2008	35,000	19,500
2009	35,000	17,750
2010	40,000	16,000
2011	40,000	14,000
Thereafter	240,000	42,000
Total	<u>\$ 425,000</u>	<u>\$ 130,500</u>

**NOTE 9 - RISK FINANCING**

The Township is exposed to various risks of loss related to theft of, damage to, and distribution of assets; errors and omissions; and injuries to employees. The Township purchases insurance from independent third parties for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, building and contents) and workers' compensation. Settlement amounts have not exceeded insurance coverage for the current or three prior years.

**CLARENCE TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED MARCH 31, 2006**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavor)</u>
Revenues:				
Taxes:				
Current Taxes	\$ 57,200	\$ 51,983	\$ 51,986	\$ 3
Administrative Fee	25,600	25,600	23,623	(1,977)
Penalties and Interest	200	200	146	(54)
Special Assessments	2,200	2,200	2,105	(95)
	<u>85,200</u>	<u>79,983</u>	<u>77,860</u>	<u>(2,123)</u>
State Grants:				
State Shared Revenue	<u>140,000</u>	<u>131,000</u>	<u>131,200</u>	<u>200</u>
Licenses and Permits:				
Construction Permits	21,400	21,400	18,365	(3,035)
Cable TV Franchise Fees	1,300	1,300	1,278	(22)
	<u>22,700</u>	<u>22,700</u>	<u>19,643</u>	<u>(3,057)</u>
Charges for Services:				
Cemetery Grave Openings	3,000	3,000	4,375	1,375
Cemetery Lot Sales	800	800	475	(325)
	<u>3,800</u>	<u>3,800</u>	<u>4,850</u>	<u>1,050</u>
Interest and Rentals:				
Interest	130	130	1,049	919
Hall Rental	4,000	4,000	4,475	475
	<u>4,130</u>	<u>4,130</u>	<u>5,524</u>	<u>1,394</u>
Other Revenue	<u>8,790</u>	<u>8,790</u>	<u>2,298</u>	<u>(6,492)</u>
Total Revenues	<u>264,620</u>	<u>250,403</u>	<u>241,375</u>	<u>(9,028)</u>
Expenditures:				
Current:				
General Government:				
Legislative:				
Salaries	3,870	4,040	4,144	(104)
Supervisor:				
Salary	9,408	9,410	9,409	1
Expenses & Supplies	150	200	217	(17)
	<u>9,558</u>	<u>9,610</u>	<u>9,626</u>	<u>(16)</u>
Election:				
Salary	1,000	1,264	1,263	1
Publications & Supplies	500	1,189	988	201
	<u>1,500</u>	<u>2,453</u>	<u>2,251</u>	<u>202</u>
Assessor:				
Salaries	16,170	16,170	16,065	105
Expenses & Supplies	1,000	1,000	709	291
	<u>\$ 17,170</u>	<u>\$ 17,170</u>	<u>\$ 16,774</u>	<u>\$ 396</u>

The notes to financial statements are an integral of this statement

**CLARENCE TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED MARCH 31, 2006**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavor)</u>
General Government (cont'd):				
Clerk:				
Salaries	\$ 12,800	\$ 12,800	\$ 12,787	\$ 13
Postage	3,300	3,300	2,836	464
Publications & Supplies	4,200	4,200	3,968	232
Professional	12,500	12,867	10,541	2,326
Dues & Subscriptions	1,500	1,500	1,279	221
Conferences & Workshops	800	300	292	8
Miscellaneous	1,100	1,100	700	400
	<u>36,200</u>	<u>36,067</u>	<u>32,403</u>	<u>3,664</u>
Board of Review:				
Salaries	<u>1,200</u>	<u>1,200</u>	<u>1,150</u>	<u>50</u>
Treasurer:				
Salaries	14,340	14,340	14,102	238
Supplies & Expenses	600	600	548	52
	<u>14,940</u>	<u>14,940</u>	<u>14,650</u>	<u>290</u>
Township Hall:				
Salaries	24,900	25,800	23,986	1,814
Telephone	3,500	3,200	3,288	(88)
Office & Maint. Supplies	800	876	876	-0-
Janitorial & Lawn Care	3,400	3,400	2,733	667
Repairs & Maintenance	3,900	4,102	4,389	(287)
Utilities	5,400	6,426	5,646	780
Miscellaneous	2,500	1,600	1,533	67
	<u>44,400</u>	<u>45,404</u>	<u>42,451</u>	<u>2,953</u>
Miscellaneous Expenses:				
Road Improvements	-0-	-0-	-0-	-0-
Drain-at-Large	5,000	4,000	3,617	383
Street Lighting	2,000	2,000	1,821	179
Recycling	2,100	1,800	1,793	7
Miscellaneous	4,937	5,305	-0-	5,305
Insurance	10,000	10,000	9,725	275
	<u>24,037</u>	<u>23,105</u>	<u>16,956</u>	<u>6,149</u>
Cemetery:				
Sexton Salary	4,735	4,735	4,737	(2)
Lawn Care	12,500	10,700	10,627	73
Grave Opening & Closing	3,000	4,500	4,175	325
Maintenance	7,000	6,145	6,881	(736)
	<u>\$ 27,235</u>	<u>\$ 26,080</u>	<u>\$ 26,420</u>	<u>\$ (340)</u>

The notes to financial statements are an integral of this statement

**CLARENCE TOWNSHIP**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED MARCH 31, 2006**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavor)</u>
Public Safety:				
Fire Protection:				
Fixed Cost	\$ 20,000	\$ 20,000	\$ 20,000	\$ -0-
Runs	34,000	46,000	41,875	4,125
Capital Outlay	-0-	-0-	560	(560)
	<u>54,000</u>	<u>66,000</u>	<u>62,435</u>	<u>3,565</u>
State Construction Code				
Enforcement:				
Salaries & Fees	23,510	20,360	21,041	(681)
Conferences and Workshops	1,300	500	455	45
Expenses	1,500	600	562	38
	<u>26,310</u>	<u>21,460</u>	<u>22,058</u>	<u>(598)</u>
Planning Commission:				
Salaries	1,700	1,300	420	880
Expenses	100	100	-0-	100
	<u>1,800</u>	<u>1,400</u>	<u>420</u>	<u>980</u>
Capital Outlay	<u>4,000</u>	<u>4,000</u>	<u>-0-</u>	<u>4,000</u>
Total Expenditures	<u>266,220</u>	<u>272,929</u>	<u>251,738</u>	<u>21,191</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,600)</u>	<u>(22,526)</u>	<u>(10,363)</u>	<u>12,163</u>
Other Financing Sources (Uses):				
Operating Transfers In	1,500	15,821	1,686	(14,135)
Operating Transfers Out	-0-	-0-	-0-	-0-
Total Other Financing Sources (Uses)	<u>1,500</u>	<u>15,821</u>	<u>1,686</u>	<u>(14,135)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	<u>\$ (100)</u>	<u>\$ (6,705)</u>	<u>(8,677)</u>	<u>\$ (1,972)</u>
Fund Balances - April 1			<u>90,662</u>	
Fund Balances - March 31			<u>\$ 81,985</u>	

The notes to financial statements are an integral of this statement

CLARENCE TOWNSHIP  
OTHER SUPPLEMENTAL INFORMATION  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
MARCH 31, 2006

	Fire Equipment & Replacement Fund	Road Fund I	Equipment Fund	Totals
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 113,447	\$ 14,891	\$ 3,740	\$ 132,078
Receivables:				
Taxes	<u>5,093</u>			<u>5,093</u>
Total Assets	<u>\$ 118,540</u>	<u>\$ 14,891</u>	<u>\$ 3,740</u>	<u>\$ 137,171</u>
<b>LIABILITIES AND FUND EQUITY</b>				
<b>LIABILITIES</b>				
Due to Other Funds	\$ 6,631	\$	\$	\$ 6,631
Deferred Revenues	<u>5,093</u>			<u>5,093</u>
Total Liabilities	<u>11,724</u>	<u>-0-</u>	<u>-0-</u>	<u>11,724</u>
<b>FUND EQUITY</b>				
Fund Balance - Unreserved	<u>106,816</u>	<u>14,891</u>	<u>3,740</u>	<u>125,447</u>
Total Fund Equity	<u>106,816</u>	<u>14,891</u>	<u>3,740</u>	<u>125,447</u>
Total Liabilities and Fund Balances	<u>\$ 118,540</u>	<u>\$ 14,891</u>	<u>\$ 3,740</u>	<u>\$ 137,171</u>

The notes to financial statements are an integral of this statement

**CLARENCE TOWNSHIP  
OTHER SUPPLEMENTAL INFORMATION  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED MARCH 31, 2006**

	Fire Equipment & Replacement Fund	Road Fund I	Equipment Fund	Totals
Revenues:				
Taxes	\$ 60,883	\$	\$	\$ 60,883
State Grants		10,378		10,378
Interest	501	47	20	568
Total Revenues	61,384	10,425	20	71,829
Expenditures:				
Public Safety	6,640			6,640
Public Works		1,698	1,742	3,440
Total Expenditures	6,640	1,698	1,742	10,080
Excess of Revenues Over (Under) Expenditures	54,744	8,727	(1,722)	61,749
Fund Balances - April 1	52,072	6,164	5,462	63,698
Fund Balances - March 31	\$ 106,816	\$ 14,891	\$ 3,740	\$ 125,447

The notes to financial statements are an integral of this statement



Jay E. Cardinal, CPA  
Randall L. Tepatti, CPA  
Steven W. Shults, CPA  
Thomas J. Bellgraph, CPA

AUDIT COMMUNICATION AND  
REPORT OF COMMENTS AND RECOMMENDATIONS

September 26, 2006

Honorable Board Members  
Clarence Township  
27052 R Drive North  
Albion, MI 49224

In planning and performing our audit of the financial statements of Clarence Township, for the year ended March 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Clarence Township's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

**REPORTABLE CONDITIONS**

**1. SEGREGATION OF DUTIES**

During our consideration of the Township's internal controls and our assessment of fraud risk, we noted that the Township does not have an adequate overall internal control design. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.). Currently, the same individual accepts cash receipts, records cash receipts, prepares bank deposits, makes bank deposits, and prepares the bank reconciliation.

While this is a common occurrence in small organizations due to the limited number of employees, the Township Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We recommend the Township review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we recommend the Township Board provide a greater review and supervision of employee functions and procedures.

Randall L. Tepatti, *Registered Representative*

## 2. RECONCILIATIONS OF BANK ACCOUNTS

During our analysis of cash, we noted that the Township had not prepared formal bank reconciliations throughout the year. Through our audit procedures, we were able to recreate bank reconciliations, documenting any reconciling items (i.e., deposits in transit, outstanding checks, etc.).

The Uniform Accounting Procedures Manual issued by the Department of Treasury contains the basic financial records, documents, and procedures that are applicable to all counties and local units of government in Michigan. That manual states that all bank accounts must be reconciled to the local unit accounting records monthly. The clerk's records must agree with or reconcile to the treasurer's and the bank's records. A reconciliation sheet should be prepared in duplicate for each month with one copy for the treasurer and one copy for the clerk.

We recommend the Township prepare formal reconciliations on a monthly basis for all bank accounts and that the reconciliations are retained for audit purposes. These reconciliations should reconcile bank deposits to receipts reported in the general ledger and checks issued should be reconciled to expenditures recorded in the general ledger.

## 3. INVESTMENT POLICY

During the performance of our audit and through discussions with administration, it was noted that the Township has not adopted an investment policy that addresses certain areas of risk as described in GASB Statement No. 40. Deposit and investment resources often represent significant assets of the Township's funds. These resources are necessary for the delivery of Township services and programs. Effective for the period ended March 31, 2006, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Township's ability to provide services and meet its obligations as they become due.

We suggest the Township amend the current investment policy to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such policies are required to be disclosed in the notes to the Township's financial statements by GASB Statement No. 40.

## 4. TAX COLLECTION DISBURSEMENTS

During our analysis of cash, we noted that the Township had disbursed tax collections to various local governments in excess of amounts collected.

We recommend the Township print summaries of tax collections before disbursement to various local governments and mark on these worksheets date of disbursement of funds. The Township should exercise controls to avoid over disbursing tax collections.

## 5. REVIEW OF BUDGETS

During our consideration of the Township's internal controls, we noted that although the Township appropriately adopted an annual budget for the General Fund, it does not appear as though the budgets are periodically compared with actual results, such as through a monthly report that would be approved by the Board and recording in the minutes of the Board meeting. In order to remain in compliance with the Uniform Budgeting and Accounting Act (Act 2 of 1968, Budget Sections as amended) and for the Township's budget to be a meaningful and useful management tool, management should prepare periodic interim vs. actual financial statements for the Township Board to review.

The Uniform Budgeting and Accounting Act requires the Township Board to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

As explained in Note 2 to the financial statements, various activities within the general Fund of the Township exceeded the amounts appropriated. We recommend that the Township management provide the Board periodic financial reports. We also recommend that the Board review such financial reports on a monthly basis. The financial reports should be generated directly from the Township's general ledger and include fiscal year-to-date revenues and expenditures compared to their budgeted amounts. Management should recommend and the Township Board should provide for budget amendments prior to exceeding amounts appropriated.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated September 26, 2006.

This report is intended solely for the use of management and the Township Board of Clarence Township and is not intended to be and should not be used by anyone other than these specified parties.

We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.



Cardinal Tepatti & Co.  
Certified Public Accountants